LEGISLATIVE SERVICES AGENCY

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FISCAL IMPACT STATEMENT

LS 6914 **NOTE PREPARED:** Mar 18, 2013
BILL NUMBER: HB 1568 **BILL AMENDED:** Mar 18, 2013

SUBJECT: Real Property Subject to Tax Sale.

FIRST AUTHOR: Rep. Moed **BILL STATUS:** CR Adopted - 2nd House
FIRST SPONSOR: Sen. Holdman

FUNDS AFFECTED: X **GENERAL** **IMPACT:** Local
DEDICATED
FEDERAL

Summary of Legislation: (Amended) The bill has the following provisions:

Vacant Parcels: In the statute concerning the sale of real property for which taxes or special assessments are delinquent, the bill makes the following changes for purposes of the section that allows a county executive that holds a certificate of sale for a vacant parcel to sell the parcel to a contiguous residential property owner:

(1) It provides that the certificate of sale will be sold to the successful applicant for $1, plus the amount of certain costs incurred by the county in the sale. (Under current law, the sale price does include costs incurred by the county.)

(2) It provides that for purposes of the section, a "vacant parcel" includes an improved parcel. (Current law provides that a "vacant parcel" includes only an unimproved parcel.)

(3) It specifies that the county executive may offer for sale the certificate of sale for a vacant parcel. (Current law refers to the sale of the vacant parcel itself.)

(4) It eliminates the property tax exemption for a vacant parcel acquired by an adjoining landowner.

Urban Homesteading Program: The bill establishes an alternative urban homesteading program that provides for the following:

(1) That an individual is qualified to receive real property offered under the program if the individual applies for and receives, within a period specified by the local agency administering the program, a rehabilitation loan eligible for insurance under section 203(k) of the National Housing Act.

(2) That the conveyance of a dwelling to a qualified individual under the program shall be made for a fee of $1, plus certain costs incurred by the county in obtaining the property.

(3) That before the vesting of a fee simple title in a qualified purchaser under the program, any material

failure by the purchaser to carry out the agreement required under the program nullifies the agreement and all right, title, and interest in the property reverts to the agency administering the program.

Developer's Discount for Financial Institutions: The bill provides that a financial institution that holds land that: (1) has been subdivided into lots; or (2) re-zoned for, or put to, a different use; qualifies for a land development exception in which the reclassification of the land is delayed.

Effective Date: July 1, 2013.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Summary:*

(Revised) *(1) Vacant Parcels:* In general, the impact would depend on whether the vacant parcel was purchased before July 1, 2013, and if so, whether there was a structure on the parcel (improved) or not (unimproved). "Unimproved" parcels acquired before July 1, 2013, fall under current law, and the impact of this bill, except for the purchase price paid, would be negligible.

For both "improved" and "unimproved" parcels, regardless of the purchase date, this provision increases the price charged from $1 to $1 plus postage and publication costs (minimum $25), and any other actual costs incurred by the county that are directly attributable to the tax sale (e.g., advertising costs, title search expenses, uniform commercial code expenses, attorney's fees, etc). As a result, the revenue gained from the sale of vacant lots under this bill could increase. However, if the increased purchase price causes the number of vacant parcels sold to decrease, some of the potential increase in revenue could be negated.

For those "improved" vacant parcels purchased before July 1, 2013, the parcel resulting from combining this parcel with its contiguous neighbor would qualify for a property tax exemption for up to five years as long as the owner does not transfer the title to another party (current law exempts "unimproved" combinations). This is equivalent to a tax deduction during this period. The county may forego some revenue and tax rates may increase during this period. After five years, the combined parcel would be added to the tax rolls and the AV included in the tax base. Revenues at this point would increase.

The property tax exemption would no longer apply for all vacant parcels purchased after June 30, 2013. The parcel resulting from combining an "unimproved" parcel with its contiguous neighbor would no longer qualify for the property tax exemption granted under current law. As a result, the county would not experience any potential loss of revenue (especially in the first year of the exemption period), or the increase in tax rates that would occur to mitigate any potential loss of revenue.

Assuming that the owner of the contiguous neighboring parcel would purchase the "unimproved" vacant parcel with or without this provision, the county could receive an immediate increase in revenue from the vacant parcel as it would not have to wait five years to place it on the tax rolls.

On the other hand, if the owner of the contiguous parcel chooses not to purchase the vacant parcel because the exemption has been discontinued, the fiscal impact would depend on the purchase price of the vacant parcel plus the potential loss of revenue of the parcel that would have occurred during the exemption period weighed against the potential revenue gain once the exemption period has ended.

(2) Urban Homesteading Program: This program under current law and the alternative program under this proposal are both geared to rehabilitating vacant/abandoned properties and properties with delinquent taxes. Furthermore, under this provision, both programs may be administered by the same agency. However, under this provision, an individual may find it easier to obtain financing than under current law, thereby making this option more attractive. On the other hand, the cost of obtaining the property under this proposal is relatively higher ($1 plus attorney's fees and tax sale fees, etc., versus $1 under current law).

It is expected that the number of properties rehabilitated under this bill would increase. This, in turn, would permit a county to gain additional revenues once the property has been fully rehabilitated and returned to the tax rolls. Initially, the bill permits an individual to acquire properties for a minimal sum ($1 plus attorney's fees and tax sale fees, etc.) without any payment of taxes or penalties. Theoretically, this could be considered a loss of potential revenue to the county. However, the reality is that the county was unable to previously dispose of the properties at a tax sale and they were not redeemed. Additionally, the county has to maintain the properties adding to its expenditures.

As a result, if this provision results in property being returned to the tax rolls, this would ultimately lead to an increase in property tax revenues and a possible decrease in tax rates and circuit breaker credits. The total net increase in local revenue is indeterminable at this time and would depend on the number of properties returned to the tax rolls and the property tax payments they generate.

(Revised) *(3) Developer's Discount for Financial Institutions:* Under this bill, a financial institution would qualify as a land developer and thus would be eligible for the lower assessment accorded land developers under current law. As a result, local taxing units in which the land in question is located could receive (sometimes substantially) less property tax revenue from the financial institution.

The current statute permits agricultural land held by a land developer to be assessed as such until it is transferred to a person that is not a land developer. For example, agricultural land in 2012 was assessed at $1,630 an acre (in 2013 the base rate is $1,760 per acre). On the other hand, in 2012, estimates of land values for residential owner-occupied dwellings ranged from about $7,300 to $47,500 for land up to an acre; since these estimates include land that could be less than an acre, they should be considered as minimum values.

Additional Information:

Vacant Parcels: This provision makes two changes to current law. It changes the concept of a vacant parcel; and it increases the price paid for such a parcel.

Under current law a vacant parcel is defined as:

(1) The parcel has not been sold at a tax sale and, as a result, the lien has been transferred to the county executive.

(2) The parcel is unimproved.

(3) The construction of a structure intended for residential use is permitted.

(4) The parcel is contiguous to one or more parcels on which there is a homestead eligible for the

standard deduction (owner-occupied).

Under this bill, the concept of a vacant parcel has been broadened to include parcels on which there is a structure as long as the parcel is on the list of vacant or abandoned properties, or not occupied by a tenant or a person having a substantial property interest of public record in the parcel. The combination of this type of parcel with its contiguous neighbor would also be eligible for a property tax exemption for up to five years.

(Revised) *Urban Homesteading Program*: In general, this proposal resembles current law in many ways, but there are a few differences. Both programs are designed to rehabilitate vacant and/or abandoned property. Both require that the person applying for the property stay in the property for three years and adhere to the rules and regulations prescribed by the director of the agency overseeing the program. The major differences are the following:

(1) This proposal covers only individuals. It does not include community organizations as current law does.

(2) The applicant in question has to apply for and receive a rehabilitation loan eligible for insurance under Section 203(k) of the National Housing Act 9 (see *Background Information*); the current statute does not stipulate how the individual or community organization would obtain the necessary financing. It states that the individual or organization must have adequate financing.

(3) This provision also increases the price paid for the property from $1 to $1 plus postage and publication cost (minimum $25), and any other actual costs incurred by the county that are directly attributable to the tax sale (e.g. advertising costs, title search expenses, uniform commercial code expenses, attorney's fees).

(Revised) *Background Information: 203(k) Rehab Mortgage Insurance:* A rehabilitation loan is defined as a loan or advance of credit for the purpose of financing the rehabilitation of an existing one-to-four unit structure which will be used primarily for residential purposes. Section 203(k) insurance enables home buyers and homeowners to finance both the purchase (or refinancing) of a house and the cost of its rehabilitation through a single mortgage, or to finance the rehabilitation of their existing home. All persons who can make the monthly mortgage payments are eligible to apply. Cooperative units are not eligible.

State Agencies Affected:

Local Agencies Affected: Local taxing units.

Information Sources: 24 CFR 203.50; 24 CFR 203.440: Code of Federal Regulations, Title 24:Housing and Urban Development, Single Family Mortgage Insurance; OFMA Property Tax Database; Reference Materials for Valuing Agricultural Land for Assessment Year 2013.

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